

Message Text

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PAGE 01 RIO DE 03217 251601Z

44

ACTION XMB-04

INFO OCT-01 ARA-06 ISO-00 INT-05 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 /056 W

----- 119223

R 251509Z AUG 76

FM AMCONSUL RIO DE JANEIRO

TO SECSTATE WASHDC 4065

INFO AMEMBASSY BRASILIA

AMCONSUL SAO PAULO

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DEPT PASS EXIMBANK

FROM COMMERCIAL COUNSELOR

EO 11652: NA

TAGS: BENC, BEXP, BR

SUBJ: SIDERBRAS STEEL EXPANSION PROGRAM

REF: BRASILIA 7057, RIO DE JANEIRO 3102

1. COMLCOUNS AND FINATT MET WITH WILKIE BARBOSA, SIDERBRAS SUPER-INTENDENT, ON AUG 19 TO DISCUSS STATUS OF PHASE III STEEL EXPANSION AWARDS. COMLCOUNS POINTED OUT THAT RESULTS SO FAR HAD NOT BEEN ENCOURAGING FOR US SUPPLIERS. ONE REASON FOR DISAPPOINTING RESULTS MAY HAVE BEEN LACK OF ADEQUATE OPPORTUNITY TO REVISE PROPOSALS AS BIDDING CONDITIONS WERE MODIFIED. COMLCOUNS CITED EXAMPLE OF BNDE FINANCING FOR BRAZILIAN CONTENT: THESE TERMS WERE ANNOUNCED ON NOV 14, JUST FOUR DAYS BEFORE THE BID DEADLINE ON A NUMBER OF PACKAGES OF MAJOR INTEREST TO US SUPPLIERS. ANOTHER DIFFICULTY MAY HAVE BEEN THAT US FIRMS WERE NOT RPT NOT CLEAR ON INCENTIVES FOR BRAZILIAN CONTENT IN PROPOSALS UNTIL LAST SPRING. COMLCOUNS POINTED OUT THAT THESE PROBLEMS WERE ESPECIALLY DISCONCERTING SINCE US STEEL INDUSTRY TASK FORCE UNDER USG SPONSORSHIP

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PAGE 02 RIO DE 03217 251601Z

HAD TRAVELLED TO BRAZIL LAST YEAR TO CLARIFY GROUND RULES UNDER

WHICH BIDDING WOULD TAKE PLACE. BARBOSA HIMSELF HAD VISITED US TO ENCOURAGE BROAD US PARTICIPATION IN PHASE III EXPANSION AND USG OFFICIAL EFFORTS HAD HELPED OVERCOME US INDUSTRY'S INITIAL RELUCTANCE TO PARTICIPATE IN PHASE III. IN VIEW OF POOR SHOWING OF US FIRMS THUS FAR, LACK OF INTEREST ON PART OF US INDUSTRY IN ANY FURTHER PARTICIPATION IN PHASE III OR THE FUTURE PHASE IV WAS PROBABLE.

2. BARBOSA REPLIED THAT AFTER LEARNING OF US CONCERN IN THIS MATTER (BRASILIA 7057) HE HAD REQUESTED COL. PENNA, VICE PRES OF ENGINEERING COMPANHIA SIDERURGICA NACIONAL (CSN) TO PREPARE A WRITTEN EVALUATION OF THE US PERFORMANCE IN THE BID COMPETITION. PENNA'S EVALUATION, WITH WHICH BARBOSA CONCURRED, WAS THAT US FIRMS HAD DONE POORLY PRIMARILY BECAUSE THEIR PRICES WERE NOT COMPETITIVE. ANOTHER FACTOR WAS THAT US SUPPLIERS HAD GENERALLY LOWER LEVELS OF BRAZILIAN PARTICIPATION THAN OTHER BIDDERS. REGARDING CHANGES IN BIDDING CONDITIONS, BARBOSA STATED THAT ALL COMPETITORS FACED THE SAME PROBLEM. THE JAPANESE AND FRENCH, HE NOTED, SEEMED TO BE ABLE TO MAKE THESE READJUSTMENTS. IN BARBOSA'S OPINION, THE BNDE FINANCING, WHICH DEPENDS ON PERCENTAGE OF BRAZILIAN CONTENT, DOES NOT RESULT IN SIGNIFICANT COST DIFFERENTIALS. BARBOSA POINTED OUT THAT ONLY A SMALL PORTION (10-15 PER CENT) OF THE PHASE III CONTRACTS HAD BEEN AWARDED. US SUPPLIERS WOULD HAVE AMPLE OPPORTUNITY TO WIN FUTURE CONTRACTS. BARBOSA SUGGESTED THAT US COMPANIES COULD IMPROVE THEIR RESULTS BY BEING MORE COMPETITIVE IN THEIR PRICING AND MORE AGGRESSIVE IN THEIR SEARCH FOR BRAZILIAN PARTNERS.

3. COMLCOUNS NOTED THAT, WHETHER JUSTIFIED OR NOT, US COMPANIES WERE LOSING CONFIDENCE IN BIDDING PROCEDURES. BARBOSA AGREED THAT COMLCOUNS CONTINUE DISCUSSIONS WITH PENNA IN RIO.

4. COMMENT. DISCUSSIONS DID NOT RPT NOT GET INTO MERITS OR COMPLAINTS OF INDIVIDUAL US COMPANIES AND BIDS, AN ACTION WE CONSIDER VERY UNWISE AT THIS POINT. OUR MESSAGE HAS NOW BEEN DELIVERED CLEARLY ON TWO OCCASIONS. (QUITE BY ACCIDENT, COMLCOUNS FLEW BACK TO RIO ON SAME PLANE WITH BARBOSA AND HAD OPPORTUNITY TO MAKE INFORMAL PITCH AGAIN.) THE ONLY TACTIC AVAILABLE TO US IS TO LET BRAZILIANS KNOW IN NO UNCERTAIN TERMS THAT US COMPANIES ARE LOSING OR HAVE ALREADY LOST INTEREST IN ANY FUTURE PARTICIPATED OFFICIAL USE

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PAGE 03 RIO DE 03217 251601Z

PATION IN BRAZILIAN STEEL EXPANSION. SIDERBRAS WILL HAVE TO DRAW ITS OWN CONCLUSIONS AS TO WHAT EFFECT CLEAR JAPANESE DOMINATION OF EARLY PHASE III AWARDS WILL HAVE ON FUTURE INTERNATIONAL COMPETITIVE BIDDING. THIS IS OUR ONLY HOPE OF INFLUENCING OUTCOME OF AWARDS AND WE ARE NOT RPT NOT OPTIMISTIC THAT IT WILL WORK. COMLCOUNS WILL MEET WITH PENNA WEEK OF AUG 30 TO ELABORATE ON FOREGOING. AGAIN, WE DO NOT INTEND TO DISCUSS INDIVIDUAL BIDS OR COMPANIES. NEW DEVELOPMENTS ON CSN HOT STRIP MILL REPORTED SEPTTEL.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 25 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976RIODE03217
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760324-1335
From: RIO DE JANEIRO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760821/aaaaarot.tel
Line Count: 116
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION XMB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 BRASILIA 7057, 76 RIO DE JANEIRO 3102
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 12 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 JUL 2004 by CunninFX>; APPROVED <25 OCT 2004 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SIDERBRAS STEEL EXPANSION PROGRAM
TAGS: BENC, BEXP, BR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006